



# United States Department of the Interior

## BUREAU OF LAND MANAGEMENT

Montana State Office

222 North 32nd Street

P.O. Box 36800

Billings, Montana 59107-6800

IN REPLY TO

SDR-922-97-06  
I-32-IND-7045  
3165.3 (922.PL

FEB 1997

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

L. Rondie Keith  
Costilla Energy, Inc.  
P.O. Box 10369  
Midland, Texas 79702

SDR No 922-97-06

### VACATED

Costilla Energy, Inc (Costilla Energy) has requested a State Director Review (SDR) of the Notices of Incidents of Noncompliance (INCs) #IKDW97001 issued and dated October 16, 1996, #IKDW97003 and #IKDW97004 issued and dated January 14, 1997, by the Dakotas District Office (DDO) assessing Parker & Parsley Petroleum Company for failure to place the appropriate operator name, P&P Producing, Inc. (P&P), on the well sign located on Indian oil and gas lease no. I-32-IND-7045 on the Woodrow Star 1-A well, located in the SW $\frac{1}{4}$ SE $\frac{1}{4}$  Section 21, T. 152 N., R. 94 W., McKenzie County, North Dakota. The January 14, 1997, INC requested a corrective action be completed by January 29, 1997. The well sign at the time showed Costilla Petroleum Corporation.

Costilla Energy filed this request after being notified by a December 18, 1996 (Enclosure 1), letter from Parker & Parsley Development L.P. of the INCs and assessments on the subject lease. Costilla Petroleum Corporation was accepted by DDO as operator of this lease on January 29, 1997. Prior to this action, P&P is the officially recognized operator of record by the DDO. The records show that Costilla Petroleum Corporation has merged with Costilla Energy with the surviving company being Costilla Energy. The SDR request was dated February 10, 1997, and was received by this office on February 12, 1997 (Enclosure 2). The SDR request was considered timely filed on February 12, 1997, in accordance with 43 CFR 3165.3(b).

Costilla Energy has requested that the State Director vacate the INCs as issued to and in the name of Parker & Parsley Petroleum Company, in addition, abate the Assessments for Noncompliance. Costilla Energy argues that had the BLM been aware of the BIA's December 14, 1995, approval of the assignment under Indian oil and gas lease no. I-32-IND-7045, Costilla Energy believes the actions taken by the BLM would have been entirely different and the Notices and Assessments may not have been necessary. Costilla Energy also stated that the operator named on the Notices and Assessments, Parker & Parsley Petroleum Company, was incorrect. In addition, on February 25, 1997 (Enclosure 3), this

office received a letter from Parker & Parsley requesting that the State Director vacate the INCs as issued and in the name of Parker & Parsley Petroleum Company, because it was not the operator.

In order to address Costilla Energy's request, a brief discussion of the history surrounding the circumstances that led to the DDO in issuing the INCs Assessments and Civil Penalty is necessary.

On June 12, 1995 (Enclosure 4), P&P sold the lease to Costilla Petroleum Corporation (1%), and Costilla Energy, L.L.C. (99%) under an Assignment and Bill of Sale. The transaction was to be effective on April 1, 1995.

On June 26, 1995 (Enclosure 5), the DDO received a sundry notice submitted by Costilla Petroleum Corporation stating that it was the new operator of the subject lease. The Sundry Notice also mentioned the bond that would be used to cover operations on the lease. On November 22, 1995, this sundry notice was rejected by the DDO. However, there was no explanation provided to Costilla Petroleum Corporation in writing on the reasons for rejecting the sundry notice. Based on our conversations with the DDO, it was our understanding that there were many telephone conversations involving the DDO, Costilla Petroleum Corporation, P&P, and the BIA Fort Berthold Agency office prior to DDO's rejection of the sundry notice. On December 14, 1995 (Enclosure 6), the BIA, Fort Berthold Agency approved the assignments from P&P to Costilla Petroleum Corporation, and Costilla Energy, L.L.C. on the subject lease. The DDO was notified of the approval of the assignment via a copy of the BIA letter dated December 15, 1995, to LCM, LTD (Enclosure 7).

Since June 1995, Costilla Petroleum Corporation has been filing the Monthly Report of Operations (MROs) with Minerals Management Service. Prior to June, 1995, Parker & Parsley was filing the MROs. The DDO has records of the MROs. Since the rejection of the sundry notice by the DDO which was dated November 22, 1995, and until April 24, 1996, there was no correspondence from the DDO to Costilla Petroleum Corporation or P&P discussing the change of operator.

On April 24, 1996 (Enclosure 8), Costilla Petroleum Corporation was notified by the DDO via a certified letter that Form 3160-8 (Designation of Operator) needed to be executed by the Lessee of Record, Costilla Energy, L.L.C., for the subject lease, whereby Costilla Energy L.L.C. would designate Costilla Petroleum Corporation as operator. Even though Costilla Petroleum Corporation was already one of two lessees of records, Costilla Energy L.L.C. would still be required to designate Costilla Petroleum Corporation as operator. Based on our conversation with the DDO, we understood the April 24 letter was triggered by the April 22, 1996, production handling inspection. At that time, the well sign showed Costilla Petroleum Corporation. No INC was issued by the DDO and there was no follow-up to this letter.

On August 22, 1996, an inspection was conducted which identified that the well sign did not show the correct operator. The well sign needed to show P&P, as operator, and not Costilla Petroleum Corporation. INC #IKDW96047 (Enclosure 9) was issued to Parker & Parsley Petroleum Company requiring that the well sign be corrected. No copies of the INC were sent to Costilla Petroleum Corporation.

On October 16, 1996, an inspection was conducted as a follow-up to the August 22, 1996, INC which had a corrective date of October 4, 1996. The well sign was not corrected as of October 16, 1996. INC #IKDW97001 (Enclosure 10) was issued which gave Parker & Parsley Petroleum Company until November 22, 1996 to correct the well sign, and was also assessed \$250 in accordance with 43 CFR 3163.1(a)(2).

On November 26, 1996, an inspection was conducted as a follow-up to the October 16, 1996, INC which had a corrective date of November 22, 1996. The well sign was not corrected as of November 26, 1996.

On December 2, 1996, INC #IKDW97002 (Enclosure 11) was issued to Parker & Parsley Petroleum Company to take corrective action by January 13, 1997; otherwise, civil penalties would go into effect.

On December 18, 1996 (see Enclosure 1), Parker & Parsley Development L.P. forwarded a copy of the December 2, 1996, INC to Costilla Petroleum Corporation advising them to investigate the situation because penalties may be assessed after January 13, 1997. This was the first written indication that Costilla Petroleum Corporation was aware of the INCs issued by DDO to Parker & Parsley Petroleum Company.

On January 13, 1997 (Enclosure 12), the DDO received a sundry notice requesting approval for the change of operator. The sundry notice was dated January 3, 1997; however, it was rejected by the DDO on January 14, 1997. There was a hand written note on the sundry notice that stated "We cannot accept the change since our records indicate that P&P Producing, Inc. is the operator. Designation of Operator forms will need to be executed by the lessees."

On January 14, 1997, an inspection was conducted as a follow-up to the INC issued on December 2, 1996, which had a corrective date of January 13, 1997. The well sign was not corrected as of January 14, 1997. INC #IKDW97003 (Enclosure 13) was issued assessing \$2,100 in penalties in accordance with 43 CFR 3163.2(g)(2)(iii). As a result, civil penalties were assessed from December 3, 1996, to January 13, 1997.

On January 14, 1997, INC #IKDW97004 (Enclosure 14) was issued assessing civil penalties at \$500 per day with a cap of \$5,000 (including \$2,100 from INC #IKDW97003). In addition, on January 24, 1997 (Enclosure 15), Parker & Parsley Petroleum Company was issued a Bill for Collection in the amount of \$250.00 plus the interest accrued under the original INC #IKDW96047.

On January 29, 1997 (Enclosure 16), Costilla Energy Inc. filed a Designation of Operator form designating Costilla Petroleum Corporation as the operator of record on the subject lease. In addition, the DDO was provided a copy of affidavit of merger showing the merger of Costilla Petroleum Corporation and Costilla Energy, Inc. effective January 1, 1997. On the same date, the DDO accepted the change in operator (Enclosure 17).

In conclusion, the INCs on lease I-32-IND-7045 were the result of the well sign not displaying the correct operator, P&P. The regulations at 43 CFR 3162.6 requires that the well sign display the correct operator. The follow-up inspections showed that the sign violations had not been corrected, and thus, the assessment INCs issued. The DDO acted accordingly to the regulations at 43 CFR 3162.6(c) when issuing the original INC (INC #IKDW96047) associated with the well sign, and after appropriate timeframes and follow-up inspections, correctly issued assessments INCs for failure to comply with those original INCs. However, the INCs were issued to Parker & Parsley Petroleum Company which was not the officially recognized operator of record by the DDO. Also, based on the evidence provided by Costilla Energy and the DDO's records, we believe the change of operator issue could have been resolved in 1995. We agree with Costilla Energy that it has been working diligently with the DDO to resolve this issue. However, we also believe that the issue could have been resolved if there was adequate written correspondence to Costilla Energy explaining the requirements of the BLM regarding the change of operator in 1995.

Therefore, since the INCs were not issued to the officially recognized operator of record by the DDO, we hereby vacate INCs #IKDW96047, #IKDW97001 #IKDW97002, #IKDW97003, and #IKDW97004 issued by the DDO against Parker & Parsley Petroleum Company. The assessments and civil penalties associated with the INCs are no longer valid.

/s/ Thomas P. Lonnie

Thomas P. Lonnie  
Deputy State Director  
Division of Resources

17 Enclosures

- 1 - Parsley & Parker Development L.P. letter dated 12/18/96 (1 p)
- 2 - Costilla Energy, Inc. letter dated 12/10/97 (3 pp)
- 3 - Parker & Parsley letter dated 2/21/97 (3 pp)
- 4 - Assignment and Bill of Sale signed 6/12/95 (5 pp)
- 5 - Costilla Petroleum Corporation Sundry Notice dated 6/12/95 (1 p)
- 6 - Assignment of Mining Lease approved 12/14/95 (3 pp)
- 7 - BIA, Fort Berthold Agency letter dated 12/15/95 (2 pp)
- 8 - BLM, DDO letter dated April 24, 1996 (1 p)
- 9 - INC# IKDW96047 dated 8/22/96 (1 p)
- 10 - INC# IKDW97001 dated 10/16/96 (1 p)
- 11 - INC# IKDW97002 dated 12/2/96 (1 p)
- 12 - Costilla Energy, Inc. Sundry Notice dated 1/3/97 (1 p)
- 13 - INC# IKDW97003 dated 12/2/96 (1 p)
- 14 - INC# IKDW97004 dated 1/14/97 (1 p)
- 15 - Bill for Collection dated 1/14/97 (1 p)
- 16 - Designation of Operator Form dated 1/29/97 (5 pp)
- 17 - BLM Acceptance letter dated 1/29/97 (1 p)

cc: (w/o encls.)

Parker & Parsley, Inc., Attn: Richard Marlin, 14000 Quail Springs Parkway,  
Suite 5000, Oklahoma City, OK 73134-2600

Parker & Parsley Development, L.P., Attn: Harry Nutter, 303 W. Wall,  
Suite 101, Midland TX 79701

Superintendent, BIA, Fort Berthold Agency, PO Box 370, New Town, ND 58763

WO (300), MIB, Rm. 5627 - 1

WO (310), LS, Rm. 510 - 1

DM, Dickinson

DM, Miles City

DM, Lewistown

AM, Great Falls

MSO (922)

AK SO

AR SO

CA SO

CO SO

ESO

ID SO

NV SO

NM SO

OR SO

UT SO

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